

**CASE STUDIES ON THE MONITORING
OF INFORMAL CREDIT MARKETS**

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Rosario de Guzman, and Joselette delos Santos*

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I. INTRODUCTION

This compendium of 27 case studies focuses on the profession of informal moneylending in the urban and rural sectors. As gleaned from the cases, the label of informality refers not only to the absence of government control. It also reflects the very wide range of terms and conditions prevalent in the credit market. Interest rates, frequency of payments, mode of payments, penalties, collateral requirements, and the like, vary considerably among moneylenders and clients.

Past attempts at analyzing the informal credit market have used baseline data drawn from those who avail of it -- households and firms. They constitute the demand side of the system. However, for reasons of efficiency, it is the more natural convention to monitor the supply side in other markets, as in surveys of agricultural and industrial production. To monitor credit from the vantage of supply would require the surveillance of moneylenders, both urban and rural.

*This is Module 5 in the collection of studies conducted by Social Weather Stations, Inc. (SWS) under the Asian Development Bank-sponsored regional research on informal credit markets.

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Researchers would have to contend with institutional difficulties, however. In spite of its present legality, money-lending has been consigned to the underground and its professionals have to contend with social disfavor. They are still popularly viewed as "usurers," and hence, exploiters. In fact, the local derogatory name for them is the sweeping term, "5-6": they lend five pesos today to be repaid six pesos tomorrow. The lender charges exorbitant interest rates from the poor who have no collateral and no real choice. Such is the popular conception.

However, borrowers may not seem to share this view. To them, lenders extend help regularly, especially in times of great need.

Popular reproach for moneylenders may be partly attributed to the legal setting. For a long period, the practice was banned in the Philippines. Hence, over time, informal lenders were conditioned to hide their activities, fear law enforcers, and simply put up with public condemnation. The abolition of the Usury Law did not automatically remove the stigma, for opprobrium still remains. Consequently, informal lenders still hide their activities, raising questions about the feasibility of monitoring the sector.

That is the point of this exercise. Is the covert nature of informal lending an insurmountable obstacle to the task of monitoring the market? This issue raises other issues of similar importance. What is the best method for gaining information on the suppliers of credit? What questions can be asked? Will respondents cooperate in the endeavor? Would they be willing to be monitored over time?

To examine the feasibility of monitoring the informal credit market and to gather more primary information regarding its general features, SWS associates conducted interviews with money-lenders over a period of 14 months.

II. THE CASE STUDY APPROACH

SWS attempted to study a broad range of moneylenders in terms of area location, kinds of goods transacted, and the types of businesses pursued by both moneylenders and clients. Interviewers covered Manila, Bulacan, Nueva Ecija and Quezon province encompassing the urban and rural areas. Respondents were rice, coconut and vegetable traders and farmers, dry goods traders, sari-sari store (micro-grocery) owners and Chinese traders. SWS interviewed market vendors, cooperatives, foundations, "paluwagans" (ROSCAs), department store credit dealers, and nongovernmental organizations (NGO). SWS tried to complete the entire conduit of each particular lending system.

SWS formulated a common questionnaire for the face-to-face interviews after studying the local and selected foreign literature on the informal credit market. The questionnaire was pre-tested on six respondents in various professions and from urban and rural areas. [The issues raised in the interview questions are listed in a subsequent section.]

It was found that the questionnaire did tend to elicit baseline information and data on the respondents' activities as moneylenders. Little data was gathered, however, to allow for the establishment of a monitoring system. SWS, hence, made a follow-up questionnaire to fill in data gaps regarding monitoring.

The abolition of the Usury Law has removed the illegality of moneylending activities. However, as stated earlier, its practitioners cannot seem to transcend their past (illegal) status psychologically. Any form of inquiry about their business or profession is unwelcome and most often not entertained. To establish trust and rapport between the respondents and the interviewer, the moneylenders were contacted through friends and relatives. Given appropriate referrals, their initial resistance to being interviewed was overcome.

To ensure objectivity, the following approaches to the interview and data gathering were used:

1. The respondents were assured that the Usury Law had been abolished.
2. Some were assured that their names would never appear in the reports.
3. They were recognized as important participants in the economy, since they seemed to be more effective than the banks in making loans available to small borrowers. This gave further respectability to their operations.
4. They were asked how they started in the profession. The usual answer given was that they needed to help people in times of need. This was recognized by the interviewer as a moral act. Thereby, rapport was established and the cooperation of the respondents in answering questions was ensured.
5. The use of the term "profession" to denote their work was very pleasing to the respondents. On the other hand, the local term, "5-6," was never used.
6. Interviewers always sought permission; they asked if respondents were willing to answer the questionnaire. However, the latter were never asked to perform the tedious task of filling up the questionnaire. The atmosphere of informality was always pursued.

7. Interviewers attempted to establish friendly relations on a more permanent basis. It was hoped that such ties would encourage the respondents to become part of the monitoring system.

8. Interviewers generally visited the respondents in places where they usually transacted their businesses. This provided the former with additional information and confirmation of data from customers who were around during the time of the interview.

9. Interviewers stressed that the research project aimed to study the informal credit market in the Philippines. They made clear that the study might later help the lenders in protecting their interests.

10. Respondents were never asked to show their records, although subtle hints were attempted. This approach prevented the interviewers from being alienated, and it assuaged moneylenders' fears of being investigated.

11. In some cases, the project interviewers asked the friends of the moneylenders to do the interviewing to obtain more objective and candid answers.

The questions used in the interviews will not be included here. However, the issues examined in the survey are enumerated as follows:

Issues Pertinent to the Interview with Informal Lenders

I. General Information

A. Moneylender's Background

1. educational attainment
2. profession besides moneylending
3. how they entered the profession
4. no. of years in profession
5. source of funds

B. Clientele

1. sector
2. income level
3. location and area
4. determination of reliability of client
5. peak or lean periods
6. competition in field products traded

C. System Generally Used

1. total size of loans per month or year
2. total number of loans per month or year

3. loan ceiling and average
4. collateral requirements
5. risks and defaults
6. interest rate, how determined and relation to bank rates
7. manner of lending
8. kinds of payment
9. frequency of payment

D. Type of Recording System Used

II. Problems and Issues in Gathering Data

- A. Identifying Respondents
- B. Confidentiality and Personal Approach
- C. Fear of the Bureau of Internal Revenue
- D. Psychological Stigma

Issues Examined in the Follow-up Questionnaire

I. Volume

- A. Outstanding Loans
- B. Present Number of Borrowers
- C. Modal Loan or Most Frequent Kind of Loan
- D. Seasonality of Loan
- E. Frequency of Making a Loan
 - a) everyday
 - b) every week
 - c) every two weeks
 - d) every three to four weeks
 - e) every month
 - f) others
- F. Moneylending in Relation to Other Income
 - a) over 50%
 - b) 25 to 50 %
 - c) below 25%

II. Interest Rate

- A. Exact amount borrowed and exact amount paid per interval, i.e., per day, per month, per season.
- B. Range of loan term:

short, modal, largest

- C Specify amount if payment is made in kind Check out amount and payment in kind Compute amount and point out discrepancy when converting kind into monetary terms
- D Delayed payments Is interest extended or raised? What will interest be next month if the client cannot pay in the previous month?

Any penalty or fine? Amount Specify any kind of additional amount
- E Collateral - amount and/or kind
- F If no interest is given where does the gain come from? Trade-credits How is the market cornered? Any difference with market price? If they buy (rice or copra) early are there any costs saved?

III Others

- A Number of competitors in area location or field of work
- B Reaction to formation and membership of some kind of association of moneylenders
- C Hesitancy to being interviewed (self-assurance of perceived acceptability of society fear of punishment by law or tax problem)

IV Continued Monitoring

- A Can the respondent be a monitoring source for some period of time? How long can they be a source?
- B Give exact address of respondent
- C How often can respondent accept visits (monthly quarterly yearly and dates of preference for each period)?
- D Can others beside present interviewer approach respondent in terms of confidentiality - who or what kind of person can approach respondent?
- E Their names will not come out What would be a good incentive for source?

Note All questions asked may not be necessarily applicable to particular respondents They are directed more to test people's views on possible recommendations on policy for monitoring

- F Willingness to be a member of a monitoring panel Will be questioned regularly How often can respondent be interviewed or be a member of a rotating panel?

G. Preference in reporting -- to government or nongovernment organizations, or through their own organizations only.

H. Can they be listed as a monitoring source?

I. Would they answer questions by mail?

Analysts must recognize, however, the limitations to this form of research. One prime reason why moneylenders avoid talking about their business is because they do not register it as such. This in effect makes them tax evaders and compounds their social stigma as "usurers." In fact, most respondents expressed their fear of being exposed (via the interviews) to probing by the Bureau of Internal Revenue, the tax authority.

Such circumstances also add to the difficulties of assuring confidentiality between the respondents and the interviewer.

There were several handicaps in pinpointing the moneylenders and selecting contacts among friends and relatives who had the confidence of these moneylenders. The contacts had to reserve time to inquire if the desired moneylender would be willing to be interviewed and to arrange the time and place convenient for the moneylender.

Some respondents had to be interviewed even after midnight. Interviewing in the place of work was very useful but also very tedious. The interviewer could never show signs of impatience while waiting for the convenient time for the respondents who are at the same time attending to business concerns.

Since there was an attempt to complete the conduit of lending in each system, this required returning to the respondent and the contact person. This meant more time and transport expense, but it helped in clarifying and finding gaps in information. It also helped in establishing greater trust and confidentiality with the respondents. It encouraged certain lenders to be part of a monitoring system.

III. GENERAL FINDINGS

A total of 27 cases were studied and analyzed. The matrix presentation in the next pages gives a summary of the most important data from the interview. The 21 variables provide a concise profile of each case study. [Refer to the appendix for notes on the case studies.]

A significant finding is that 10 of the moneylenders were businessmen; and seven were professionals. This indicates that moneylending is in some way related to their professions. The link facilitates the determination of the reliability of the borrower as well as the collection of payments.

MATRIX PRESENTATION OF CASE STUDIES ON THE MONITORING OF INFORMAL MONEYLENDERS

| CASE NUMBER | 1 DRA, SEGURA | 2 NS, PHARNAPAN | 3 MS, MANAWAHI | 4 MS, VIAJERAS |
|--|--|--|---|--|
| Education | College graduate | College graduate | H.S. graduate | Grade VI |
| Profession besides moneylending | doctor | pharmacist | dressmaker | buy & sell |
| Percentage of income from moneylending | 50% | NS | 50% | 50% |
| No. of years in the profession | 15 | 2 | 5 | 10 |
| Source of funds | savings | savings | savings | savings |
| Location of moneylenders | U | R | U | U & R |
| Clientele | insurance employees/doctors/ businessmen (P5,000/month) | officemates/businessmen | UP residents/employees P800-P1,500/mo. | vendors of veg., veg. growers |
| Determination of client's reliability | friends/relatives | friends/relatives | friends (referrals) | friends |
| Loans outstanding | P300,000 | P150,000 | P30,000 | P200,000 - growers P22,000 - buyers & sellers |
| Total no. of loans/year | 35 | 10 | 30 | 120 growers 9,125 sellers |
| Loan ceiling | P20,000 | P70,000 | P1,500 | P10,000 |
| Loan average | P7,500 | P7,500 | P350/kind | P5,000 - growers P500 - buyers & sellers |
| Collateral | none | none | none | none |
| Risks | none | NA | none | none |
| Interest rate/month | 20% | 3% | 10% | 3.1% |
| Kinds of payment accepted | cash | cash | cash | vegetables |
| Frequency of collection | 15th day/varied | harvest time (6 months)/ upon request | 15th day/weekly/monthly | harvest time (4 months) |
| Maturity of loan | 3 months | NS | 2 months | 1 day - sellers 4 mos. - growers |
| Recording | OBK | OBK | OBK | OBK |
| Manner of lending | cash | cash | orders for specific goods | cash, vegetables |
| Monitoring source | W | RUA | | |

CNE - Case Non-Existing
 RUA - Respondent Unavailable
 NS - Not Specified
 NAP - Not Applicable
 OBK - Ordinary Bookkeeping

W - Willing
 NW - Not Willing
 NA - No Answer
 U - Urban
 R - Rural

Matrix presentation ... (cont'd)

| CASE NUMBER | 5 MRS. BETERANA | 6 MR. & MRS. TAGAPAGHANA | 7 MRS. TITSER | 8 INSTITUTION 1 |
|--|---|--|--|-----------------------------|
| Education | Grade IV | 2nd year HS | College graduate | NAP |
| Profession besides moneylending | none | sari-sari store owner | teacher | NAP |
| Percentage of income from moneylending | 100% | 50% | 50% | NAP |
| No. of years in the profession | 33 | 5 | 22 | 1 |
| Source of funds | savings | borrowed from cousin | savings | paluwagan members |
| Location of moneylenders | R | R | R | U |
| Clientele | police/men, vendors hospital/gov't employees | people going abroad, vendors | vendors, bag makers, sari-sari store owners | co-agents |
| Determination of client's reliability | none | friends/relatives | friends | controls salaries of agents |
| Loans outstanding | P60,000 | P50,000 | P40,000 | P120,000 |
| Total no. of loans/year | 280 | 120 | 200 | 20 |
| Loan ceiling | P12,000 | P50,000 | P5,000 | P10,000 |
| Loan average | P1,000 | P2,000 | P750 | NS |
| Collateral | none | appliance, jewelry | none for less than P5,000 jewelry, land title for more than P5,000 | none |
| Risks | none | none | minimal | none |
| Interest rate/month | 10% | 10% | 7% | none |
| Kinds of payment accepted | cash & goods | cash; GSIS/SSS checks | cash & teacher's checks | cash |
| Frequency of collection | employees: 15th day vendors: daily | market vendors: daily monthly/agreed upon | weekly | 15th day |
| Maturity of loan | 2 months | 2 months | 3 months | 1 year |
| Recording | OBK | OBK | OBK | NS |
| Manner of lending | cash | cash | cash | appliances by lottery |
| Monitoring source | NW | W | NW | RUA |

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Matrix presentation ... (cont'd)

| CASE NUMBER | 9 INSTITUTION 2 | 10 MS. SW. CASA | 11 MS. STA. MESA | 12 INSTITUTION 3 |
|--|--|-----------------------------------|------------------------|---------------------|
| Education | College graduate | NA | H.S. graduate | NAP |
| Profession besides moneylending | Religious | copra dealer | none | NAP |
| Percentage of income from moneylending | 10% | NS | 100% | NAP |
| No. of years in the profession | 10 | NS | 9 | NS |
| Source of funds | fund drives | buy & sell copra | savings | savings |
| Location of moneylenders | U | R | U | U |
| Clientele | offices or institutions engaged in education | farmers, small coconut landowners | Sta. Mesa stall owners | employees of bank |
| Determination of client's reliability | friends/personal char. | personal character | friends | co-employees |
| Loans outstanding | P200,000 | P2,000,000 | P20,000 | NS |
| Total no. of loans/year | 120 | 200 | 90 | NS |
| Loan ceiling | P50,000 | P50,000 | P2,000 | P2,000 |
| Loan average | P15,000 | P10,000 | P400 | NS |
| Collateral | none | none | none | none |
| Risks | none | minimal | none | none |
| Interest rate/month | 1.67% | none | 50% | 5% |
| Kinds of payment accepted | cash | harvest | cash | cash |
| Frequency of collection | monthly/6 months | every 45 days harvest | daily | monthly |
| Maturity of loan | 6 months | 45 days | 2 months | 1 year |
| Recording | OBK | OBK | OBK | OBK |
| Manner of lending | cash | cash based on land value | dry goods | cash |
| Monitoring source | CNE | RUA | W | CNE |

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Matrix presentation ... (CONT'D)

| CASE NUMBER | 13 MR. CHINA | 14 MS. ORDINARIO | 15 MS. SGB STORE | 16 MS. PANG-ABROAD |
|--|----------------------|--|--------------------------|--|
| Education | NAP | College graduate | College graduate | Elementary graduate |
| Profession besides moneylending | NS | businesswoman | technical assistant | none |
| Percentage of income from moneylending | NS | 10% | NS | 100% |
| No. of years in the profession | NS | 4 months | 4 | 7 |
| Source of funds | savings | savings | savings | savings |
| Location of moneylenders | U | U | U | U |
| Clientele | businessmen | college graduates P2,000-3,000/mo | employees of gov't banks | neighbors |
| Determination of client's reliability | personal character | personal character | co-employee | neighbor |
| Loans outstanding | P2 million | P40,000 | P1,500 | P35,000 |
| Total no. of loans/year | 48 | 6 | 480 | 20 |
| Loan ceiling | P1 million | P10,000 | P1,500 | NS |
| Loan average | P450,000 | P6,500 | P500 | P2,000 |
| Collateral | none | none | none | none |
| Risks | none | minimal | minimal | none |
| Interest rate/month | 3% | 5% | 2% | 10% |
| Kinds of payment accepted | cash & check | cash | cash | cash |
| Frequency of collection | 3-5 days transaction | monthly for interest 6 mos-1 yr for principal | every 2 wks | 1/2 prin. & int. after 6 mos. total amt. after 6 mos. |
| Maturity of loan | 1 week | 6 months | 2 months | 6 months |
| Recording | none | OBK | OBK | OBK |
| Manner of lending | cash | cash | purchase order | cash |
| Monitoring source | W | RUA | W | CNE |

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Matrix presentation ... (cont'd)

| CASE NUMBER | 17 MR. & MRS. KOMBINASYON | 18 MS. WALANG BAYAD | 19 MARRS | 20 NAMVESCO |
|--|------------------------------------|---------------------------|---------------------|---------------------------|
| Education | College graduate | Elementary schooling | NAP | NAP |
| Profession besides moneylending | retired (none) | none | Construction Co. | NAP |
| Percentage of income from moneylending | 100% | 100% | NS | 100% |
| No. of years in the profession | 2 | 10 | 3 | 11 |
| Source of funds | savings | income from harvest | donation foundation | savings of members |
| Location of moneylenders | U & R | R | U | U & R |
| Clientele | friends/relatives | friends/relatives | small businessmen | vendors |
| Determination of client's reliability | friends | size of farm to be tilled | verification method | co-maker |
| Loans outstanding | P600,000 | P35,000 | NS | P67 million |
| Total no. of loans/year | NS | 40 | NS | 24,504 for 13,839 members |
| Loan ceiling | P400,000 | P3,000 | P500,000 | P200,000 |
| Loan average | NS | P2,000 | P35,000 | NA |
| Collateral | appliance, jewelry, land titles | none | none | none |
| Risks | none | none | none | none |
| Interest rate/month | 3% | none | 2.4% | 4.43% |
| Kinds of payment accepted | cash & goods | rice | cash | cash |
| Frequency of collection | monthly | harvest season (6 months) | monthly | daily/weekly |
| Maturity of loan | NS | 6 months | varied | 3 months |
| Recording | OBK | OBK | OBK | OBK |
| Manner of lending | cash & checks | NA | cash | cash |
| Monitoring source | RUA | W | W | W |

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Matrix presentation ... (cont'd)

| CASE NUMBER | 21 MS. R | 22 MR. BOMBAY | 23 MS. MC | 24 WIDER |
|--|--|-------------------------------|------------------|-------------------------|
| Education | H.S. graduate | 2nd yr. College | College graduate | NAP |
| Profession besides moneylending | buy & sell paly | none | bank employee | Volunteer Social Worker |
| Percentage of income from moneylending | 50% | 100% | 50% | NAP |
| No. of years in the profession | 7 | 10 | 3 | 2 |
| Source of funds | borrowings from banks and moneylenders | relatives/friends in India | savings | Gov't Institutions |
| Location of moneylenders | R | R | U | U & R |
| Clientele | farmer, farmworkers | drivers, small store owners | officemates | women and women's group |
| Determination of client's reliability | friends | doesn't determine reliability | friends | membership in org. |
| Loans outstanding | ₹315,000 | ₹20,000 | ₹300,000 | NS but grant was ₹5 M |
| Total no. of loans/year | 100 | 960 | 1,200 | 46 |
| Loan ceiling | ₹60,000 | ₹500 | ₹3,000 | NS |
| Loan average | ₹5,000 | ₹150 | ₹1,000 | NS |
| Collateral | none | none | none | none |
| Risks | big | big | none | none |
| Interest rate/month | 6.75% | 40% | 5% | 2% |
| Kinds of payment accepted | rice products | cash | cash | cash |
| Frequency of collection | harvest season (6 months) | daily | every 15 days | varies |
| Maturity of loan | 6 months | 1 month | 2 months | varied |
| Recording | OBK | OBK | OBK | OBK |
| Manner of lending | cash, insecticide | dry goods | purchase orders | varies |
| Monitoring source | M | M | M | CNE |

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 R - Rural

Matrix presentation ... (cont'd)

| CASE NUMBER | 25 F & L | 26 BIG CASA OWNER | 27 MS. T |
|--|---|--------------------------|---|
| Education | College graduates | NA | College graduate |
| Profession besides moneylending | Trader | Industrialist | Industrialist |
| Percentage of income from moneylending | 50% | 50% | 50% |
| No. of years in the profession | 24 | 28 | 8 |
| Source of funds | Bank | Bank | Bank |
| Location of moneylenders | U & R | R | R |
| Clientele | tenants: ₱1,500/mo. income landowners: ₱5,000/mo. income | coconut buyers & sellers | 6 to 8 palay buying stations farmers |
| Determination of client's reliability | personal char., loan signing | contract signing | personal character |
| Loans outstanding | ₱20,000 | ₱2 million | ₱100,000 to farmers ₱700,000 to PBS |
| Total no. of loans/year | 25 | 360 | 20 farmers, 14 palay buying stations |
| Loan ceiling | ₱10,000 | ₱100,000 | ₱20,000 to farmers ₱100,000 to PBS |
| Loan average | ₱1,000 | ₱20,000 | ₱5,000/farmers ₱100,000/PBS |
| Collateral | none | none | none |
| Risks | minimal | minimal | big |
| Interest rate/month | 5% | none | farmers: 11.25%; PBS: none |
| Kinds of payment accepted | goods | coconut | rice, cash |
| Frequency of collection | harvest time (45 days) | harvest time (30 days) | harvest time (6 months) |
| Maturity of loan | 1 1/2 months | 1 month | farmer: 6 months PBS: 2 1/2 months |
| Recording | OBK | contract signed | OBK |
| Manner of lending | cash, rice, goods, appliances | cash | cash, fertilizer |
| Monitoring source | W | W | W |

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Most of their clientele are formal sector employees (7), while five are farmers and five are informal vendors. They are somehow related to the other professions of the moneylenders. Again, this makes it easier to determine the reliability of the borrowers. In fact, 12 cases gauge reliability through friendship and kin relations, and six from knowledge of the person. Related to this is the fact that 24 of the 27 cases involve no collateral. Such a trend indicates a strong intra-personal relationship between the moneylenders and borrowers. Another interlocked issue is the perception that 17 consider moneylending as no risk, six a minimal risk, and only three as a big risk.

It is likewise significant that 10 cases derived half of their income from moneylending and seven cases derived their full income from that business. Only two stated that it represented only 10 percent of their income. Hence 17 earned a sizeable part of their income from moneylending activities.

The source of funds used for moneylending was usually the informant's own savings. Eighteen cases cited savings as the source, and only four said that they borrowed from the bank. Another two borrowed from friends and relatives, two obtained their funds from donations, while one got capital from government institutions. This shows that the money utilized for lending activities generally accrues from savings. They are not inclined to borrow from banks, as the latter require interest to be paid on time. Most moneylenders interviewed are afraid that delayed payments from clients will force them to shoulder the banks' interest dues.

In 11 cases, outstanding loans ranged from P20,000 to P60,000, and eight ranged from P100,000 to P315,000. There were three cases involving P2 million, and one involving P67 million (for a cooperative). It is significant to note that the majority of these amounts are within the levels of what individuals could save.

A related finding is that even if outstanding loans are not very big, payment (from daily to monthly) is frequent for as many as 21 cases. Moreover, loan maturity for 14 cases is from one to three months. Hence, each moneylender can loan out funds at a turnover rate of even more than four times a year. It must be added that the very frequent payment and the short maturity of loans may be related to the informal method of determining client reliability. It may also be the reason why moneylenders in 23 cases consider moneylending risk as minimal or virtually non-existent.

In the majority of the cases (15), lending and payment transaction are confined to cash only. For some, it is a combination of both in cash and in kind (4 cases). Moreover, when the payment is in kind, then it is usually related to the other business ventures of the moneylenders.

The simplicity and informal nature of moneylending can be gleaned from the rather high incidence (24 cases) of ordinary bookkeeping.

Quite significant in the case studies is the general consent of respondents to being regularly monitored. Fully 16 of the respondents are willing to be monitored, as against only two who are unwilling. The remainder of the cases are either non-existent now or are unavailable.

IV. CONCLUSION

From the 27 case studies, the following general conclusions can be drawn:

1. Interest rates are not only varied but often difficult to compute. This is especially true when there are no fines imposed on delayed payments, or when payments are made in kind (such as rice), since the price of the goods involved may differ between the time of borrowing and payment.

2. Most respondents state that they do not feel the competition among colleagues, because they perceive that there is a constant demand for loans. This may indicate room for expansion of the market for credit.

3. Borrowing has now become a normal, accepted practice. As gleaned from the interviews, people borrow from as many as five moneylenders. Often, they even borrow from one source to pay another source. This again shows extensive demand for financing.

4. Moneylenders do not feel that banks are their competitors. Banks, on the other hand, regard the moneylenders as their competitors. In fact, even if people can borrow from banks, they still turn to the informal moneylenders.

5. Moneylending provides substantial returns. Therefore such a profession and business venture will continue to flourish.

6. Despite the availability of convenient and cheap credit offered by credit cooperatives, paluwagans, and nongovernmental organizations, the moneylenders can maintain their business. This indicates the tendency of the credit market to expand and to tap many sources of lending.

7. Many moneylenders use the formal banking system for deposits, but seldom borrow. They do not borrow from banks to lend out to others because the banks charge them for delayed payment if they cannot pay on time. Usually their capital comes from their own savings.

8. Businessmen borrow from moneylenders even at the interest rate of more than 36 percent per annum, even if the bank rate is only 17 percent per annum. This occurs because businessmen need the money immediately to engage in speculative activities. The difference between the banks' and moneylenders' rates can often be offset by the high profit the businessmen generate because of timely investments and transactions.

9. The most common source of funds for moneylending seems to be from the lenders' own savings. Such savings come from different sources: mostly from retirement or separation pay, money from relatives abroad, from regular jobs, and others. The said savings are channeled to the lending profession, as moneylenders feel they will earn much more than having these funds deposited in the banks.

10. Informal moneylenders seldom impose collateral for loans. This makes them popular among borrowers who do not possess assets which can be used as collateral. This has a psychological impact on the borrowers who feel lenders trust them, eventually paving the way for a personal bond of friendship between them. This bond is also extended to clients who can provide some kind of collateral like appliances, jewelry, land titles, and the like.

11. An underlying relationship between moneylenders and borrowers is trust, based on a close interpersonal relationship. Loan agreements are made verbally and seldom are promissory notes signed. This relationship is possible because of proximity of residence or common interests in business activity. Collateral is not required even among the wealthiest Chinese moneylenders.

12. Moneylenders give concessions to their clients on a need basis. For example, contract workers going abroad get special terms. Payment may be made on installment and extended to several months. This flexibility is perceived as very favorable to the migrant worker. Thirty percent (30%) of contract workers borrow from regular or professional moneylenders. Workers borrow more from relatives or friends who charge lower interest rates. This points to a growth of moneylenders coming from a more informal and personal category.

13. Another attractive aspect of some moneylenders' services is the separate payment of interest and principal. This seems to give borrowers more time to use the principal.

14. Even more attractive is the 'no interest' loan. This is usually in connection with a tacit agreement with borrowers for the latter to sell their produce to the creditors at a discount. In many cases, no promissory notes are signed for such transactions.

15. Several moneylending schemes work through a conduit system. This is true as regards trade credits for palay, copra and the merchandise of department stores. At the end of the conduit are usually the creditors who have better access to the borrowers for faster disbursement and collection.

16. Most moneylenders claim there are no risks involved in the profession or business. All deny there exists security risks in terms of robbery and default of payments. All consider delayed payments or bad debts (which are minimal) as simply part of the whole business.

17. The maturity of loans are generally short: from three months to six months. Fast repayment seems to have a positive effect on the security of loans.

18. Another effective guarantee of loan repayment is the daily or weekly collections, the interval being 15 days or a month. This manner of collection seem to insure an up-to-date payment of the loans.

19. If interviewers pursue the correct contacts, then most respondents are willing to be monitored. However, there must be a guarantee that their moneylending activity will not be hindered by government intervention.

Other forms of moneylending have emerged in the last 20 years. Some have been organized to counteract the moneylenders. They have taken the form of credit and consumer cooperatives, paluwagans (ROSCAs) and provident funds. More trade credit is initiated to encourage entrepreneurs to engage in small and medium scale industries for export and the local market. This is undertaken by government agencies like the National Economic and Development Authority (NEDA), Department of Trade and Industry (DTI), Department of Agriculture (DA) and the Department of Environment and Natural Resources (DENR). Some forms of credit system for department store consumers are being popularized. Similarly, nongovernmental organizations are embarking on self-help projects to develop entrepreneurship among the organized poor. All these schemes have tended to be institutionalized.

Given the above trends and features, we thus recommend the following:

1. Exact data regarding outstanding loans and interest rates are difficult to ascertain. It is business information which moneylenders usually do not want to divulge unless it is for their own benefit. Thus, questions should be formulated in such a manner that the same data could be obtained in other forms.

2. Since precise data cannot be obtained due to business constraints, then perhaps informants other than the moneylenders themselves may be useful. Such informants must be reliable in their knowledge of the moneylenders and their activities.

3. The best interviewers would be those who can establish more permanent relations (e.g., business connections) with the respondents.

4. A type of network could be constructed out of the contacts and regular respondents who may be representative of the broad range of the informal credit market. The network should extend beyond Metro Manila and the Luzon provinces; it should reach the credit markets in the Visayas and Mindanao as well.

5. The format of the interviews and questionnaire must be very informal and must provide substantive data.

6. Monitoring should be conducted at least annually, since data gathered is intended to show trends of participation in the economy.

7. Congress is discussing a bill which intends to restore the Anti-Usury Law. It is doubtful if this will put a stop to the operations of moneylenders. Worse, its enactment will contract the supply of credit, adversely affecting the informal economy and hence the lower income classes. At present, the different emerging schemes of credit systems are dampening exorbitant interest rates of certain moneylenders. Hence such a bill may defeat its assumed purpose of benefiting low income borrowers. It will also hinder the establishment of a monitoring system.

DATA OBTAINED FROM PERSONAL INTERVIEWS WITH INFORMAL LENDERS

A total of 27 interviews was made. All figures in the following tables refer to the number of respondents.

Table 1
EDUCATION LEVEL DISTRIBUTION OF LENDER INFORMANTS

| | |
|-------------------------|----|
| College graduate | 10 |
| High school graduate | 3 |
| Elementary graduate | 2 |
| Some elementary course | 2 |
| Some college course | 1 |
| Some high school course | 1 |
| Not applicable | 6 |
| No answer | 2 |

Table 2
OTHER PROFESSIONS OF LENDER INFORMANTS

| | |
|--------------------|----|
| Businessmen | 10 |
| Professionals | 7 |
| None (one retired) | 6 |
| Not applicable | 3 |
| Not stated | 1 |

Table 3
MONEYLENDING REVENUE AS A PERCENTAGE OF TOTAL INCOME

| | |
|----------------|----|
| 50% | 10 |
| 100% | 7 |
| 10% | 2 |
| Not stated | 5 |
| Not applicable | 3 |

Table 4
NUMBER OF YEARS IN THE MONEYLENDING PROFESSION

| | |
|--------------------|---|
| 1 - 5 | 9 |
| 6 - 10 | 8 |
| 11 - 15 | 2 |
| 21 - 25 | 2 |
| 26 - 30 | 1 |
| 31 - 35 | 1 |
| Less than one year | 1 |
| Not stated | 3 |

Table 5
SOURCE OF INFORMANTS' FUNDS

| | |
|---------------------------------|----|
| Savings | 18 |
| Bank borrowings | 4 |
| Borrowed from relatives/friends | 2 |
| Fund drives/donation/foundation | 2 |
| Gov't institution | 1 |

Table 6
LOCALE OF INFORMANT MONEYLENDERS

| | |
|---------------|----|
| Urban | 12 |
| Rural | 10 |
| Urban & rural | 5 |

Table 7
CLIENTELE OF INFORMANT MONEYLENDERS

| | |
|---|---|
| Employees of banks, hospital & gov't offices | 7 |
| Farmer/farmworkers | 5 |
| Vendors | 5 |
| Businessmen | 4 |
| Friends/relatives | 4 |
| Storeowner | 3 |
| Small landowners | 2 |
| Doctors | 1 |
| Policemen | 1 |
| Bag maker | 1 |
| Drivers | 1 |
| Women/women's groups | 1 |
| College graduates | 1 |
| People going abroad | 1 |
| Co-agents | 1 |
| Coconut buyer/seller | 1 |
| Institutions engaged in education | 1 |
| Rice buying stations | 1 |

Table 8
MEANS/CRITERIA FOR INFORMANTS' DETERMINATION
OF THE RELIABILITY OF THE BORROWER

| | |
|----------------------------|----|
| Friends/relatives | 12 |
| Personal character | 6 |
| Co-employees | 2 |
| None | 2 |
| Contract signing | 2 |
| Membership in organization | 1 |
| Co-maker | 1 |
| Verification method | 1 |
| Size of farm to be tilled | 1 |
| Control salaries of agents | 1 |

Table 9
SIZE OF LOANS OUTSTANDING

| | |
|--|----|
| ₱ 20,000 - 60,000 | 11 |
| 100,000 - 315,000 | 8 |
| 2,000,000 | 3 |
| 600,000 - 700,000 | 2 |
| 67,000,000 | 1 |
| 1,500 | 1 |
| Not stated (w/ one grant worth ₱5 million) | 3 |

Table 10
TOTAL NUMBER OF LOANS PER YEAR

| | |
|--------------|----|
| Less than 50 | 11 |
| 201 - 500 | 3 |
| 960 - 1,200 | 2 |
| 151 - 200 | 2 |
| 101 - 150 | 2 |
| 51 - 100 | 2 |
| 9,245 | 1 |
| 24,504 | 1 |
| Not Stated | 3 |

Table 11
INFORMANTS' LOAN CEILING

| | |
|-------------------|---|
| ₱ 10,000 | 4 |
| 50,000 | 3 |
| 100,000 - 200,000 | 3 |
| 60,000 - 70,000 | 2 |
| 400,000 - 500,000 | 2 |
| 12,000 - 20,000 | 2 |
| 3,000 | 2 |
| 2,000 | 2 |
| 1,500 | 2 |
| 1,000,000 | 1 |
| 5,000 | 1 |
| 500 | 1 |
| Not stated | 2 |

Table 12
AVERAGE LOAN SIZE

| | |
|-----------------|---|
| # 5,000 - 6,500 | 4 |
| 350 - 500 | 4 |
| 2,000 | 3 |
| 1,000 | 3 |
| 20,000 - 35,000 | 2 |
| 10,000 - 15,000 | 2 |
| 7,500 | 2 |
| 450,000 | 1 |
| 100,000 | 1 |
| 750 | 1 |
| 150 | 1 |
| Not stated | 4 |
| Not applicable | 1 |

Table 13
COLLATERAL DEMANDED BY INFORMANTS

| | |
|---|----|
| None | 24 |
| Appliance, jewelry, title of land (inclusive of one case, a lender who requires either jewelry or land title only for loans above \$5,000) | 3 |

Table 14
RISKS AS PERCEIVED BY MONEYLENDER INFORMANTS

| | |
|----------------|----|
| "None" | 17 |
| "Minimal" | 6 |
| "Big" | 3 |
| Not applicable | 1 |

Table 15
CLAIMED INTEREST RATE CHARGED PER MONTH BY INFORMANTS

| | |
|--------|---|
| None | 5 |
| 10% | 4 |
| 5% | 4 |
| 3% | 3 |
| 2% | 2 |
| 50% | 1 |
| 40% | 1 |
| 20% | 1 |
| 11.25% | 1 |
| 7% | 1 |
| 6.75% | 1 |
| 4.43% | 1 |
| 3.1% | 1 |
| 2.4% | 1 |
| 1.67% | 1 |

Table 16
KINDS OF PAYMENT ACCEPTED BY INFORMANTS

| | |
|-----------------|----|
| Cash only | 15 |
| Kind | 6 |
| Cash & kind | 3 |
| Cash and checks | 3 |

Table 17
INFORMANTS' FREQUENCY OF COLLECTION

| | |
|---------------------------|---|
| Monthly | 7 |
| 15 days | 6 |
| Daily | 5 |
| Harvest time (6 months) | 4 |
| Harvest time (30-45 days) | 3 |
| Weekly | 3 |
| 6 months | 2 |
| Upon request | 2 |
| Varies | 2 |
| Harvest time (4 months) | 1 |
| 3 - 5 days | 1 |

Table 18
MATURITY OF LOANS SET BY INFORMANTS

| | |
|--------------|---|
| 6 months | 6 |
| 2 months | 6 |
| 3 months | 3 |
| varied | 2 |
| 1 year | 2 |
| 45 days | 2 |
| 1 month | 2 |
| 5 months | 1 |
| 4 months | 1 |
| 2 1/2 months | 1 |
| 1 week | 1 |
| 1 day | 1 |
| Not stated | 2 |

Table 19
INFORMANTS' RECORDING METHODS

| | |
|----------------------|----|
| Ordinary bookkeeping | 24 |
| Signed contract | 1 |
| None | 1 |
| Not stated | 1 |

Table 20
ASSETS LENT BY INFORMANT

| | |
|----------------|----|
| Cash | 14 |
| Cash & kind | 4 |
| Kind | 4 |
| Purchase order | 2 |
| Cash and check | 1 |
| Varied | 1 |
| Not applicable | 1 |

Table 21
DISTRIBUTION OF INFORMANTS AS TO WILLINGNESS TO BE MONITORED

| | |
|------------------------|----|
| Willing | 16 |
| Respondent unavailable | 5 |
| Case non-existing now | 4 |
| Not willing | 2 |

ANNEX: CASE STUDY NOTES

Case 1. Codename: Dra. Segura

She is a doctor examining applicants for an insurance policy. She has been in the moneylending profession for 15 years. She learned this business from her 96 year old mother who started out as a moneylender at a very young age.

She lends out to employees in insurance offices with salaries of ₱15,000 per month. She also lends out to doctors and businessmen working along the Pasay and Makati areas.

Her source of funds is savings from her profession as a doctor. With outstanding loans of ₱300,000, the present number of borrowers are 10-15 persons. She determines the reliability of the borrower through guarantees from friends and relatives. She only lends out cash, with a modal loan of ₱7,500 and a loan ceiling of ₱20,000. The frequency of payments is diverse. Some pay every 15th day, some every three months and others after six months.

There are no peak or lean months in this business, and this profession provides 50 percent of her income.

She charges an interest rate of 20 percent. No collateral is asked. She accepts payments only in cash, with the shortest loan term of two weeks, a modal term of three months, and a maximum of six months.

There are no risks nor defaults, but only very delayed payments.

She lists names, dates of disbursement of loan and dates of payments. Upon complete payment, the promissory note is given back to the borrower.

The respondent is willing to be a monitoring source and she is willing to be visited in her office anytime as long as she is informed ahead of time. She prefers interviews for monitoring purposes. She expressed a positive reaction to the formation and membership into an association.

She was not hesitant in being interviewed as long as the person interviewing was referred by a friend.

There is no other person engaged in the moneylending profession in her office.

Case 2. Codename: Ms. Pharmapan

She is a pharmacist in a provincial hospital. She was formerly with immigration and had some savings. Instead of putting her money in the bank, she decided to lend it out. She also had funds given by sisters who are abroad. She has been engaged in this profession for two years.

She lends out to officemates and businesswomen engaged in buying and selling palay and fertilizer in Arayat, Pampanga.

Her source of funds is from savings. With a total of 10 borrowers, her total volume of loans is ₱150,000/year. The loan ceiling is ₱70,000 with an average of ₱7,500. She determines the reliability of her clients through the guarantee of friends and relatives. She only lends out by cash with an interest rate of three percent per month which is not determined by the bank rate. She does not demand for collateral, only a promissory note which is destroyed upon full payment. Payment can be by cash or kind as requested by the client. Frequency of payment is seasonal or upon request of the client.

She lists names, date of borrowing and payments made in a notebook.

Case 3. Codename: Ms. Mananahi

She is a high school graduate. A dressmaker, she first entered the moneylending profession when she obtained a little savings from dressmaking from her husband's salary. (He is a University of the Philippines' employee.)

She lends out to UP employees and residents with incomes of ₱800 to ₱1,500.

The source of her funds is savings. With 30 borrowers at present, she has outstanding loans of ₱30,000. She determines the reliability of clients by referral from others. She lends to permanent residents and avoids those who are merely renting rooms. She has very few clients among the students.

She demands no loan collateral, and the modal loan is ₱350 in kind. There is not much competition as regards trade credits. Her business peaks at the opening of school and on Christmas. In August and September, however, she has as low as only two people borrowing.

A loan is made every 15th day. She lends out by getting orders for specific goods like uniforms, kitchenware, umbrellas or the like, and she makes a mark-up of 20 percent payable in two months or more. She collects payment in cash. She also sells cloth material in installments, but payment for her labor to make dresses is in cash.

Her profits from this business make up 25 percent to 50 percent of her total income.

She gets a mark-up of around 20 percent which is payable in four installments in two months' time. Her shortest loan term is 1 1/2 months, the modal is two months, and the maximum is six months for items worth ₱1,300 to ₱1,500. She does not charge extra for delayed payment, but the client gives voluntarily ₱5.00 to ₱15.00. The client is still considered a good payee even if payment is not done every 15th so long as it is within the 2-month period.

Since she is a dressmaker, when she issues trade credits (the sewing which is paid in cash and done by her shop), she gives a discount of ₱5.00 to ₱10.00 for the material lent out.

In the beginning, almost half could not pay well. Later, she knew how to choose her clients. Now she hardly has any default. She has steady clients who keep on ordering new items as they pay off their old trade credits, although not all continue. However, her clients are increasing.

She lists the following on an index card: name of borrower, item bought, price, and date of payment. She accounts profit after a year and keeps permanent records of the past years' performance.

She thinks that around UP there are three of them doing the same business. There might be others but she is not aware of them.

Her hesitancy in being interviewed accrues to her perception that the secret of her business is being exposed to others. She is also afraid of taxation, although she thinks that a business like this should not be taxed, because it is not steady. She does not believe that an association is needed because she thinks that people do not stay long in the business. This is particularly true in UP, where many residents and employees are just renting their houses. Hence, customers are not permanent.

At the start she would not want to be a monitoring source for reasons of self-protection. She feels her business is small and insignificant. She is alone in the profession and feels her being in the business is not legal, since she does not declare her trade credit business. However, she can be approached anytime for an interview, preferring to be questioned personally.

Case 4. Codename: Ms. Viajeras

She only finished Grade 6 and she is a market vendor in Divisoria. She sells eggplant, string beans and tomatoes by the sack from 6 p.m. to 3 a.m.

She failed in the selling of clothes which she used to practice in Central Luzon. So with only ₱1,000 as savings, she started lending to buyers, sellers and growers of vegetables. She has been in the profession for 10 years.

Her clients are allowed to make delayed payments within 24 hours. Buyers and sellers who cannot sell all the vegetables they brought from the province also get loans from her. In Sta. Rosa, Nueva Ecija, she lends out to vendors and growers who need money for seedlings and fertilizers.

She has loans outstanding of ₱200,000 for the vegetable growers, and at present there are around 40 borrowers. For the daily sales in Divisoria market, the outstanding loan is approximately ₱22,000 and she has around 25 borrowers for this. She receives payment for the bags of vegetables a day after her sales and about half of the buyers pay.

She determines reliability of clients by recommendations of friends. She is not very meticulous in determining reliability. She feels that those who do not pay are prejudicing themselves as they can no longer borrow from her again. That would be bad for their own business.

The modal loan for vegetable growers is ₱5,000; whereas for daily buyers, it is ₱500.

She lends out in cash. The loan ceiling is ₱10,000 with an average of ₱5,000 for growers and ₱500 for buyers and sellers. She does not charge interest on money lent out to growers, or for a day's delay in the payment of buyers. She does not consider her moneylending activities as a source of income but more of an assurance for her buy-and-sell activities. A friendly agreement can be made that payment will come at harvest, in the form of crops at the present market rate minus ₱10.00 per sack of vegetables.

Loans are seasonal, and they peak during planting season.

The following computation of pricing shows her effective interest rate:

Loan of ₱2,000 payable in 4 months
1 sack of vegetables = ₱80.00 (farm gate price)
Payment is 25 sacks of vegetables

Therefore, $25 \times ₱10.00 = ₱250$ - interest
= 12.5% interest rate/4 months
= 3.1% monthly or 37.5%/annum

She collects payment in installment, in the form of vegetables during the period of harvest. The frequency of payment varies according to the abundance of the harvest.

Payment is made in kind and she buys the farm products at ₱10.00 less than the price at the market. She makes enough money to be able to finance her children through college. One of her daughters spends no less than ₱3,000/mo. for her medical schooling.

Many of the borrowers do not pay on time. One reason for such tardiness is the delay in harvesting vegetables. Another reason was that the vegetable buyers of Cabanatuan were directly buying the produce of her borrowers.

Her sales are so brisk that she does not have enough products to meet demand. She suffers some delayed payments and nonpayment for the vegetables she sells because she is occasionally tempted to lend out several bags of vegetables -- which turn out to be bad propositions. Now she is assessing her nondiscrimination in lending out money to vegetable growers and buyers.

She considers that two out of the 20 borrowers are not good payers. Some do not even use the money to plant. These people cannot borrow again from her.

She does not care about recording. She claims that even without recording, she can run her business.

Case 5. Codename: Ms. Beterana

She finished Grade 4 and has no other profession besides moneylending.

She entered the profession when her husband died. People knew she had some ready cash and they started borrowing. She has been in the profession for 33 years now. She operates in the Meralco office in Malolos and in the market of Bulacan, Bulacan.

She lends out to market vendors, hospital employees, municipal police and persons who engage in the business of buying and selling in the towns of Bulacan and Malolos.

She had savings of ₱4,000 after the death of her husband. With loans outstanding of around ₱60,000, she has, at present, around 50 borrowers. The modal loan is ₱1,000 and the loan ceiling is ₱12,000. She does not determine the reliability of clients so long as they are vendors in the market. She lends to all kinds of vendors. There is no seasonality of loan demand. There are always borrowers.

This is her only source of income.

She charges an interest rate of 20 percent/two months; ₱500 is paid ₱600 at ₱10.00/day for 60 days. Her short term loan is one month, the modal term is two months, and the longest is five months for amounts like ₱12,000 payable every week at ₱600/week.

She does not ask for collateral and lends out only in cash. She accepts only cash payment now because payment in palay is not as efficient especially when harvest is poor, or when there is no harvest at all.

She never demands fines for delayed payment. She claims that if payment is already delayed and she still asks for extra, then the more the borrower cannot pay.

The frequency of payment is daily in the market and every 15th or monthly among employees. Money defaulted for the last 33 years amounts to around ₱50,000.

Two out of twenty clientele are bad payers, but they eventually pay.

She has a list of borrowers in a yellow sheet. She transfers this to a notebook with precise collection dates.

There are around 12 competitors in the market of Bulacan, Bulacan. She does not agree to the formation of an association. She was hesitant in being interviewed because it may lead to her being "caught" by the law even if the anti-Usury Law no longer existed.

She does not want to be a regular monitoring source. She agreed to be interviewed only because the interviewer was related to her.

Case 6. Codename: Mr. and Mrs. Tagapagmana (Son of Mrs. Beterana)

He finished 2nd year high school. He started together with his wife by borrowing from his cousin at the yearly interest of 10 percent. He then lent this out at 20 percent to 25 percent. He has been in the moneylending profession for five years now.

He lends out to persons going abroad and to vendors outside of Bulacan, Bulacan.

With 20 borrowers at present, he has loans outstanding of around ₱50,000. The modal loan is ₱2,000 while the loan ceiling is ₱50,000. He determines the reliability of clients by knowledge from friends and relatives and he always demands some kind of collateral. He makes loans only in cash. He does not feel that banks are competitors because the latter impose many requirements upon borrowers. Income from moneylending ranges from 25 percent to 50 percent of his other income obtained from operating a sari-sari (micro-grocery) store.

He charges an interest rate of 20 percent to 25 percent per two months. The ₱500 becomes ₱600 for two months on daily payment. He accepts payment in cash, GSIS or SSS checks and even personal checks. The shortest loan term is 15 days, the modal term is two months, and the longest term is six months. Collateral usually comes in the form of appliances and land titles. He does not charge an additional amount or fine for delayed payment. Since borrowers are not confined to a certain location, and amounts are comparatively bigger than his mother's lending (almost five times more), this must be the reason they collect collateral.

Eighteen out of twenty are good payers. He says people pay now because they want to continue borrowing. The default rate is a mere 10 percent.

He has a notebook where names, dates of collection, and amounts borrowed are specified. The list of the names of the borrowers are first scribbled on a piece of paper which is later transferred to a notebook. In the five-year period, no accounts have been questioned.

As in other cases, his answers on present outstanding loans and number of present borrowers come only from his own estimates. He does not seem to have ready figures for both concerns.

He is willing to become a regular monitoring source. He lives in Barrio Cupang, Bulacan, Bulacan, and he can be visited every three months. He prefers not to be interviewed in English and he does not want to be interviewed by anyone else because of fear of the government. He does not want any form of incentive in answering questions because he does not want to owe any favor.

Case 7. Codename: Mrs. Titser

She is a college graduate and is at present teaching in an elementary school. Many women acquaintances wanted to embark on their own businesses, so they borrowed money from her. She has been in the moneylending profession for 22 years.

She lends out to vendors, sari-sari (micro-grocery) store owners and bag makers in five different areas in Malolos, Bulacan. She prefers to lend for business purposes. She also lends out to village folk who need tuition fee money.

Her source of funds is her savings. With outstanding loans of ₱40,000, there are at present 150 borrowers. The modal loan is ₱500 to ₱1,000 while the loan ceiling is ₱5,000. She determines the credibility of borrowers through knowledge from other persons.

There is no seasonality of loans. She is always ready with her money because there are always borrowers, almost every week. She lends out cash, and interest is not taken immediately when the loan is given.

There are competitors but they are not considered as such. Three of them are her sisters and another is a niece operating in the same area. She lends out cash and she considers her profit from this activity as comprising 25 percent to 50 percent of her total income.

She charges an interest rate of 20 percent payable in three months at weekly installments. She accepts cash and teacher's checks for payment. She does not accept post-dated checks. She does not ask for any collateral nor does she charge a fine on delayed payments.

She encounters defaults when borrowers cannot pay because they lose their jobs, become bankrupt, encounter sickness in the family, or recover from a natural calamity.

She lists down the name, amount and dates of payment in a notebook, doing this usually in front of the borrower. She does not account for profit of the whole year.

She manages to save ₱5,000/month. She has bought a house which she rents out at ₱2,000 per month, a jeep and a residential lot from this profession.

There are around five competitors in the area of Taal, Malolos, Bulacan.

She does not believe that there should be an association of moneylenders. She feels that this will only result in trouble; each one should be left by herself.

She is very hesitant in being interviewed because of fear of the government's tax arm and is not willing to be a regular respondent.

Case 8. Codename: Institution I

Only an informant was interviewed, not a moneylender. She is a volunteer social worker who knows about moneylending schemes.

The moneylending arrangement is in the form of a paluwagan system initiated by a unit manager of memorial plans with a network of around 20 agents. They pool money to buy appliances at a very low cash price from agents of appliances. The appliance agents are thus assured of bulk sales for at least 20 people per year. This unit manager has been in the paluwagan system for one year.

The institution lends out to co-office workers or co-agents.

Funds were gathered from the payment of the voluntary paluwagan members who contribute a specific amount every 15 days. Payment is certain because the unit manager controls the salaries of the agents. With a total loan size of no more than ₱120,000 per year, there are more or less 20 borrowers. No loan collateral is demanded because contributions come in the form of salary deductions.

The loan ceiling depends on the kind of appliance but the cost of the product must not be beyond ₱10,000. There is no interest rate charged. In fact, the cash payment system cuts the price to practically half that to be paid on an installment basis. The bulk sales assured for a year gives them a certain commission which is either deducted from the cost of the appliance or distributed to members of the paluwagan.

Lending is by lottery. However, there can be side transactions when one negotiates to get the appliance earlier because of pressing needs. Payment is always in cash and is made every 15 days, as deducted from the salary the whole year.

There is almost no default since payments are made through salary deductions.

Apparently there is no recording of the transactions.

The moneylending scheme of this institution seems to be quite new and may not favor the ordinary moneylenders. It is a kind of cooperative which, to a certain extent, is in competition with moneylenders. However, cooperatives and the like as of now, do not exclude people from simultaneously borrowing from moneylenders.

The informant is no longer available.

Case 9. Codename: Institution 2

The informant is a volunteer social worker who is exposed to all kinds of credit schemes.

This moneylending foundation is run by religious. They are college graduates and they have been in this kind of profession for 10 years. They lend out to offices or institutions needing capital that bring about employment and education for poor people.

The foundation's source of funds are fund drives. With a base of almost ₱2 million, total loan usually comprise 20 percent of total funds. There are 10 borrowers per month, and the reliability of the clients is determined by personal knowledge of

their character, or by referrals from trusted friends of the foundation. Loans are usually processed after two people apply for the funds, both guaranteeing each other. The loan ceiling is ₱50,000, and loans average at ₱15,000.

Collateral is promised, though not really demanded. Only a promissory note is made. Failure to pay on time does not involve confiscation of promised collateral but only payment of a fine. Payment is made every month or after six months with interest.

Lending and payment are in cash, while the interest rate is 20 percent per year, payable at the end of six months. No deduction is made at the granting of the loan.

There is hardly any default. Recording is handled by accountants who follow the ordinary bookkeeping method.

At present, they are no longer performing moneylending activities as they feel it is not in complete accordance with their religious profession.

Case 10. Codename: Ms. SW Casa

The scheme is a form of trade credit wherein the casa (milling or processing house) lends out money to coconut farmers and landowners who bring their products to the said casa in Quezon province.

The funds come from the profits of buying and selling copra. With a total loan size of ₱2 million/year, the total number of borrowers is around 150 to 200 persons. The casa selects its clientele through first hand knowledge of applicants. No collateral is usually demanded since the loan is often equivalent to the land value of the borrowers' holdings. It is presumed that the land is the basis on which the cash loan is granted. There is also the common practice of sanglang bili: if the loan is not paid upon the expiration of date due, the debtor has the option to sell his property to the lender. There is even no promissory note transacted.

The loan ceiling is ₱50,000 while loans average at ₱10,000. Generally, there is no interest charged on the loans, though there are exceptions. There is also no formal mandate to sell products to the casa although, as part of an unwritten agreement, borrowers ordinarily sell to it. The sale of copra is based on the prevailing market price. The gain of the casa is an assurance that they will buy the produce of the debtors.

Only cash is lent out but payment can be made in kind, delivered every harvest period or every 45 days. Loans are often paid on installment.

There is very minimal default due to the sanglang bili provision.

The informant claims that there is practically no small landowner who does not borrow from the casa.

It seems that the trust system is still prevailing in this area and sector. It also appears that feudal-like relations still exist, exhibiting monopolistic tendencies.

Case 11. Codename: Ms. Sta. Mesa

She is a high school graduate and who entered the profession as a way of spending her time more efficiently. She started with savings of ₱500 from her husband's salary. She would buy products from a big market and sell it to vendors in Sta. Mesa. She has made friends and contacts with many of the vendors, and she has been in the profession for nine years now.

She has at present 15 borrowers with outstanding loans of ₱20,000. She determines the reliability of clients through friendship. She usually tests her clients with initial trade credits of ₱200.00. The modal loan is from ₱350 to ₱500 in kind or in trade credits.

Her business reaches its peak on June and December and it slides to a low ebb on March, April, and August to September. She demands no collateral, and makes loans every two months. Her channels for lending are trade credits dealing with household items, garments, and ladies' accessories. All goods are ordered and the price negotiated beforehand. Payment is always in cash.

This is her only source of income.

She places a 50 percent mark-up, collecting ₱5.00 per day for one month. If an item is worth ₱100, she is paid ₱150. Her shortest loan term is one month, the mode being two months, and the longest at 100 days. She does not impose fines, because she claims that if she does so, she will lose her clients.

Defaults are usually due to bankruptcy and sickness. If payment extends beyond one month, she does not add interest. In the last nine years, she must have lost ₱8,000 in defaults.

She lists names, amounts borrowed, and date of payment in a notebook for that purpose.

In Sta. Mesa market, there are other six persons engaged in the trade credit business.

She is willing to be a monitoring source all the time and to be identified. She is not hesitant in being interviewed because

she claims that it is not illegal nor dishonorable. She says she has nothing to hide. She is willing to be a member of the panel to be questioned regularly. Her name and address are as follows:

Norma Santos
 Corner Masikap and Pag-asa St., Sta. Mesa
 Tel.: 625472

She can be visited twice a month as long as she is informed ahead of time. She has no idea about incentives. She can be interviewed by others, preferring a personal interview instead of a mailed questionnaire.

She expressed a positive reaction to the formation of a lenders' association as she claims that this is a way of protecting their trade.

Case 12. Codename: Institution 3

An informant was interviewed for a bank employees' paluwagan.

The paluwagan system seems to be taboo in the big bank now since there exists a credit union and a provident fund for the benefit of the employees.

In one system of the paluwagan, members pay ₱50/month and take turns in borrowing. There is no interest charge in borrowing. This system is fast disappearing because the amount involved is minimal. Further, the emergence of credit from big department stores helped ease out this system.

In another system of the paluwagan, members give ₱2,000 at the start of the year. This ₱2,000 plus interest earned is returned at Christmas time. These amounts are lent out at five percent interest/month for nonmembers and four percent interest/month for members. Interest is payable every month, while the principal is payable monthly or annually. The loan ceiling is determined by the members. Each borrower (member or nonmember) is evaluated on his/her capacity to pay. Nonmembers need to have guarantors. In the 25 departments of the government bank, around five departments are adopting this system. However, it has become somewhat of a taboo.

Risk is very low, since the clientele work in the same office, and nonmembers have guarantors.

At present, the person interviewed on the background of the bank employees' paluwagan is no longer connected with the system. Further monitoring is impossible as the system is now non-existent.

Case 13. Codename: Mr. China

The moneylender is a Chinese who does not want to be interviewed. The informant is a bank manager.

He lends out to businessmen who need ready cash to buy goods available at cheaper prices. His clients do not borrow money from the bank because of the duration, inconvenience and complexity of processing. Businessmen need the immediate cash to carry on speculative forms of business.

The source of funds is his savings. Lenders like him do not borrow from banks also because the latter exact a penalty for late payment of due accounts. So if the lender cannot collect from the borrower on time, then the bank will collect a penalty of three percent per month.

With an average of two borrowers per week, the total size of loans is not less than P500,000 per week. This can increase to P1,000,000 per week. Loans outstanding total P2 million. The loan ceiling is around P1,000,000, with an average level of P400,000 to P500,000. Some loans are not bound by collateral as long as the borrowers are trusted.

The interest rate is usually three percent per month or sometimes five percent per month when bank rates are high. They match the prevailing bank rates and try to pattern the loans with those of the formal system. Lending is in cash. The lenders even deposit bank checks which ordinarily cannot be cashed except in three days' time. But banks buy these checks as bills of purchase with 24 percent interest per annum or two percent per month divided into three days. Through this arrangement the check can be encashed. The cash is then given to the borrowers.

There was once a default of P1 million but the lender still continued in this profession. Cases of default are seldom.

Apparently, there is no formal recording conducted regarding these transactions.

It seems almost impossible to arrange an interview with these wealthier Chinese moneylenders. Even collaterals are not transacted and money changes hands very fast. Transactions are very brisk because speculation in buy-and-sell activities is also involved.

Banks feel that these moneylenders compete with them but the latter do not regard the former in the same way. The banks cannot compete with the moneylenders due to the sheer pace of the informal lenders' transactions. Even if the moneylender's interest rate at three percent per month or 36 percent per year is much higher than the banks' 17 percent per year, the borrowers still prefer the informal lenders because the difference can

easily be covered up by the profit they make in the speculative transactions. They also make a sizeable profit because of the sheer volume of speculative trade.

The informant is willing to be a regular monitoring source.

Case 14. Codename: Ms. Ordinario

She is a college graduate and her husband works abroad. She entered this profession after some friends kept coming to her to borrow money. She has been in this profession for four months and derives 10 percent of her total income from moneylending. Earlier, she really used to lend without interest.

Based in Quezon City, she lends money to those in need of tuition funds and to college graduates applying for jobs abroad. Her clients' salaries range from ₱2,000 to ₱3,000.

She got her funds from her savings. Total loan size amounted to ₱40,000, with a loan ceiling of ₱10,000 and an average of ₱6,000 to ₱7,000. She determines the reliability of her clients through her own assessment of their character.

She does not demand collateral for herself nor for a richer moneylender who lends to her. In fact, since she acts as the guarantor of her friends, the richer moneylender does not require collateral either. She accepts promissory notes and pay-to-cash post-dated checks.

She lends and collects in cash. Her richer moneylender patron gets three percent interest per month. She adds to this two percent to four percent. Hence, her client has to pay from five percent to seven percent interest. The payment of the principal of the loan ranges from six to 12 months.

There is hardly any risk and default for both the moneylender and the guarantor because the reliability of the guarantor and the borrower is evaluated.

She lists names, loan amounts and dates of payment in a notebook for this purpose.

This system might be prevalent, but the interviewer still has not encountered other persons involved in this arrangement.

She cannot be a monitoring source as she is now out of the country.

Case 15. Codename: Ms. SGB Store

She finished her college economics course at the University of the Philippines and is working as a technical assistant at present. She entered the profession as a sub-guarantor four years ago.

She lends out to employees of big government banks.

The interviewee acts as a sub-guarantor to a principal guarantor who is bonded for a certain amount of cash by some big department stores. The principal guarantor provides a clean title of house and lot as collateral. Depending on the bond and the collateral, the guarantor is given by the department store a credit limit.

The principal guarantor collects five percent of the total amount of purchase orders or gift certificates from the department stores. This amount is usually deducted from the payment he or she makes for the purchase order. The principal guarantor has several sub-guarantors. In this case, there are around 10. The latter does not have to be bonded. They only answer for the payment of those who cannot pay on time.

Sub-guarantors usually have collectors who do the actual collecting from the buyers of the gift certificates or purchase orders. The collector could also be classified as a sub-guarantor since she also assesses the credibility of buyers. In fact, sub-guarantor and collector contrive an arrangement, that if the sub-guarantor does not guarantee the buyer but the collector does, then the latter advances payment if the buyer pays later.

There are less than 10 principal guarantors in the whole bank and around 80 to 90 sub-guarantors. This scheme has lessened the numbers of those participating in the paluwagan system. And this seems to be very prevalent in the Makati area.

Buyers often share in one purchase order when they feel they cannot utilize the whole amount of ₱500. Buyers purchase the ₱500 coupons for ₱525, or a five percent mark-up per month. This five percent usually goes to the principal guarantor (3%) and to the sub-guarantor (2%). A sub-guarantor can share one percent with the collector. Since payment is in four installments within a period of two months, then it is practically a 10 percent mark-up. Others charge more than the five percent mark-up. Buyers also pay an additional fee ranging from ₱3.00 to ₱7.00 for every purchase order or gift certificate. The additional fee is divided between guarantor and sub-guarantor.

Goods generally purchased are grocery items. Coupons have expiry dates, and purchase orders are only good for one day.

The interviewee's source of funds is savings from her salary.

She determines the reliability of her buyers by knowing their character. This is quite easy since they generally belong to the same department in the bank.

With outstanding loans of ₱1,500, the modal loan is ₱500, with a loan ceiling of ₱1,500. There are at present five borrowers.

There are four equal payments for two months. However, purchase orders for sales of department stores are payable for only two equal payments.

Since the clients are bank employees, risks and defaults are minimal. However, there was a case of a sub-guarantor who disappeared. The guarantor wanted all sub-guarantors to make earlier payments to pay up for the loss. Some sub-guarantors refused and they left the principal guarantor.

The sub-guarantor lists the names together with purchase order numbers given by the guarantor. The guarantor then sends computerized bills to sub-guarantors of the total amount to be collected from the latter.

She is willing to be a regular monitoring source but she prefers to answer questions by mail.

Case 16. Codename: Ms. Pang-abroad

She is an elementary school graduate, and she has no other profession except moneylending. She has been in this business for seven years.

She lends out to neighbors in the community where she was formerly residing (Caloocan City). Sometimes, clients are people applying for work in Saudi Arabia.

The source of her funds is money sent by her husband who is working in the United Arab Emirates. For her, determination of the reliability of the client is easy, and she has no fear of lending because they are all well known to her since they are her neighbors. With outstanding loans of ₱35,000 per year, there are a total of around 20 loans. She did not specify her loan ceiling, although she has an average of ₱2,000. She does not feel any competition because there are no private persons lending money within their community except her. She does not ask for collateral. Demand for loans is greatest in May and June.

She only lends out cash and the interest rate is quoted at 10 percent per month. However, the interest is paid fully six

months after the money was borrowed. After six months, half of the principal must be paid, and the rest should be paid in one year. So, if half the principal is paid in six months' time, the effective interest rate is 30 percent per annum. If no part of the principal is paid, then it is 60 percent/annum.

Apparently there are no risks or defaults. Moreover, friends guarantee other friends who are not well known to the moneylender.

She records her transactions in a notebook. She cannot be a monitoring source as she has stopped lending money, since her husband is no longer working abroad.

Case 17. Codename: Mr. and Mrs. Kombinasyon

Both husband and wife finished college. Mr. Kombinasyon is an assistant administrator of a government corporation and Mrs. Kombinasyon is a housewife. Both have been in the profession for more than two years now.

They lend money to close relatives living in Metro Manila, Batangas and Zamboanga. They also lend to other people referred and guaranteed by close friends and relatives. Clientele are composed of college graduates whose income levels belong to the middle and upper brackets, and have landholdings, stocks and steady jobs.

The funds were gathered from savings and proceeds of Mr. Kombinasyon's separation pay as a former employee of another government corporation. With a total loan size of more than ₱600,000, the Kombinasyons service more than 20 borrowers at present. They determine the reliability of the client by personal knowledge and through intermediaries.

They grant loans only with collateral. Noncollateralized loans are reserved for needy relatives and close friends. Borrowers are asked to make post-dated checks although this practice is not compulsory. This applies to small loans from ₱1,000 to ₱2,000. Collateral ranges from land titles, jewelry, appliances to practically anything of value (depending on their usefulness to the lender). They do not feel competition with banks or other moneylenders because their problem is to satisfy the needs of old and new borrowers. Neither do they perceive it as a risky activity, since returns and investments outweigh perceived risks. They claim "even banks have become risky (with a measly interest rate on savings at that), so why not take risks on something even more profitable in the long run?"

The business is relatively stable throughout the year and loans are generally renewed. Peak months are June and December.

The biggest loan granted was ₱400,000 and the smallest was ₱1,000. Less than ₱1,000 is not considered as loan but "aid" to the borrower and therefore not charged interest if it is paid on time.

Interest rate is fixed at three percent per month regardless of the amount borrowed and the demand for loans. There is an occasional reduction to two percent if it is long term, and if they take possession of property and derive income from it in the process. (For example, a housing unit was mortgaged at ₱20,000.) The respondents claim they do not really foreclose unless extremely necessary. As long as the borrower continues to pay the agreed interest rate, it is alright with them. After all, their main objective is not really to acquire properties but to have means to support daily needs through income derived from interests.

They can lend in cash, checks, or they can simply order the trustee bank to release money to another bank in favor of the borrower. Payment is made in cash, although they accept payment in kind from close relatives and friends. They accept items or services which are needed by respondents. One example is a borrower who owns a wrought iron and pump drilling business. Payment was done through product and services rendered. However, only partial payments are deducted in this manner since they want "to keep the business alive."

Interest is paid monthly whereas the payment of the principal depends on mutually agreed deadlines which are generally flexible.

Default rates are almost nil. The problem they have is delay and not default. In fact, in one example, the principal was not fully paid. So the lender at first refused to release the collateral. The borrower thus sued, but later agreed to an amicable settlement involving smaller collateral.

A logbook is used for recording transactions, and big loans are recorded on a separate logbook.

The respondent is no longer available.

Case 18. Codename: Ms. Walangbayad

She is a housewife who finished merely elementary schooling. She entered the profession by actually starting as a borrower. Since she knew a lot of farmer borrowers, she became a sub-guarantor. She has been 10 years in this "profession." She gets no payment and puts no added interest on that paid by the borrower to the lender. Her possible benefit is her being lent money at any time by the lender.

She sub-guarantees relatives and friends in Polilio, Nueva Ecija whose income level (per harvest) is approximately ₱18,900.

Her source of funds is income from harvest. She actually does not need funds, being merely a guarantor. However, when full payment is not made she has to pay up. With outstanding loans of ₱35,000, there are at present 20 borrowers. The modal loan is ₱2,000. She determines the reliability of the client by the size of the farms to be tilled.

She does not feel any competition. In fact, in the village of 2,500 population, with around 318 households, there are around five guarantors only. Others in the village go directly to moneylenders.

The seasonality of loan demand during planting season may be described as follows:

January - gasoline for tractor
February and March - fertilizer and insecticide
April - insecticide as needed

Lending may be in cash, fertilizer, insecticide or even rice at cost price. Payment for palay (unhusked rice) is at ₱2.50 or ₱2.70/kilo, or the prevailing price. Payment is made every 180 days.

She does not add interest to the interest demanded by the moneylender. However, since she buys palay, then she has a steady and ready supplier of palay. She also has an easier credit line to the palay buying station.

Around seven out of 12 borrowers do not make full payment. Last May 1987 harvest, she had to advance ₱5,000 for these borrowers' deficiencies.

She lists names, kinds of loans and amounts borrowed, and pertinent dates in a notebook.

She is willing to become a regular respondent as long as her contribution will be useful. She is willing to be interviewed by mail as long as it is not in English.

Case 19. Codename: MMRRS

"Metro Manila Research and Report Services is only servicing these loan applications. It is not the outfit lending nor is it approving/disapproving the applications. All loans approved are coursed through MMRRS principals, designated servicing banks which release the loans pursuant to Central Bank regulations, and other laws applicable."

It is interesting to note that "Loans released under the guidelines carry a fixed interest rate as determined by MMRRS principals from time to time, and which are equal, if not lower than prevailing bank rates." Hence they can even go lower than bank rates. Moreover the MMRRS does the verification and credit check which has to be paid by the applicant of the loan.

Any person who has the capacity or ability to pay, has a proven income source, has a good credit track record and established paying habits can become a borrower. It conducts a very careful evaluation of creditors. Applicants for loans must first find out if they can obtain income insurance before they file the loan.

It is actually a kind of foundation. It was formed three years ago and its capitalization comes from foreigners or Filipinos abroad. It is a branch of a company in New York called "Asia Projects."

The source of funds for lending are the company's designated servicing banks. Determination of reliability of client is through credit check and verification. The applicant has to pay a fee of ₱300 or .0040 percent of the amount of the loan applied for, whichever is higher. This is not refundable. Total size and number of loans/year cannot be determined by brochure. However, in the short time that the interviewer was there (less than 1 hour), there were around six borrowers who were following up their papers. The loan ceiling is ₱500,000 and the minimum is ₱20,000.

No collateral is demanded. The borrower's comprehensive curriculum vitae and audited financial statement and Income Tax Return for the past three years are also needed. Interest rate, as stated, is equal or even below the bank rate. However, the fees to be paid are quite numerous. They are the following:

- a. Application form: ₱10.00, refundable
- b. Nonrefundable ₱300.00 or more for verification and credit sheet
- c. Loan service fee of ₱1,000.00 or up to five percent of the amount approved, remittable simultaneously on the borrower's receipt of loan.
- d. Communication charges if needed; documentation charges
- e. Mortgage redemption (life) equal to amount approved with hospitalization and accident (nonlife) insurance equal to a year's amortization but renewable; an income insurance or surety bond in the amount equal to a year's amortization and automatically renewable yearly. These insurances/surety are a must and should come from insurance/surety firms acceptable to MMRRS principals. MMRRS will pay the premium of insurance/surety to be deducted from the loan.

The claim of MMRRS is that it gives loans lower than bank rate. However, there are hidden charges as computed below:

| | | |
|-------|----------|--------------------------------------|
| P | 10.00 | - application form |
| | 300.00 | - application fee |
| | 800.00 | - verification fee |
| | 1,000.00 | - service fee (minimum) |
| | 240.00 | - insurance premium for P20,000 loan |
| <hr/> | | |
| P | 2,350.00 | |

In effect, it is an additional interest rate of around 12 percent per annum added to the "lower-than-bank" rate. Hence 17 percent plus 12 percent is approximately 29 percent or 2.4 percent/month. They claim that a P25,000 loan is payable after six months at the rate of 20 percent per annum in five years' time. Loans average at P35,000.

Lending and payment is in cash. Frequency of payment is monthly, but starting on the 60th day from the date the loan was released to the borrower. "Payment terms may be from six months up to 10 years at the election of the borrower. No adjustment/changes in the amount applied for and the payment terms elected shall be allowed once the application is submitted."

There are no risks or defaults encountered because all loans are insured. Its type of recording was not stated in the brochure.

It refuses to commit to being a respondent but it claims that they are an open organization which can answer questions anytime.

Case 20. Codename: NAMVESCO

This is a summary report on the documents of NAMVESCO.

In the early seventies, market vendors discussed their common problems, primarily loan sharks, and came up with the formation of the National Market Vendors Cooperatives Service Federation Inc. (NAMVESCO).

A market vendor cooperative is a credit cooperative capitalized by the individual shares of the market vendor members. It is organized principally to rescue market vendor from "exploitative" lenders. It grants loans to members on the basis of their equity or deposit and on the strength of the guaranty of the members at an interest rate very much lower than banking rates, and rates of any other commercial lending institution. The cooperative is owned in common by the market vendors and interest is paid on the capital or share-owned by the members.

NAMVESCO has 40 affiliated market vendors cooperatives. Its assets total P113 million as of December 31, 1986. The primary objective of NAMVESCO is to encourage the formation of more cooperatives. Its clientele are market vendors in Baguio, Batangas, Bulacan, Tuguegarao, Davao, Laguna, Metro Manila, Olongapo City, Quezon and Rizal.

The source of funds is initially the contribution of the members as fixed deposits. They also acquire interest on interlending in one year (1986) of P151,000 which is half of their gross savings of P25,147. NAMVESCO determines the reliability of clients by first lending to them only twice, not three times, their fixed deposit. All borrowers must have passed the seminars of cooperatives. (Each cooperative should consist of at least 85% vendors.)

Outstanding loans for one year (1986) amounted to P67 million. The total number of loans for 1986 was 24,504 for the 13,839 members. The loan ceiling is three times the fixed deposit of the member but not more than P200,000.

The cooperatives' interest rate can be as low as 4.43 percent as shown by their computation. Market vendors' cooperatives pose much competition for money shops and loan sharks. However, market vendors borrow simultaneously from the cooperatives and the loan sharks.

COOPERATIVE MEMBER NO. 763

Coop. Member No. 763 was picked at random from among 1,200 members of a Market Vendors Cooperative. She has share capital holdings (fixed deposits) of P6,330.00 in the Cooperative.

A study was made on her one-year loan transactions with the cooperative as follows:

TERMS OF THE LOAN

A member can borrow three times as much as his/her share capital (F.D.)

100 - days
6.5 Interest per annum
1.5% Service Fee
2% - Collective Charge

| Date of Loan Release | Amount of Loan | Interest | Service Fee | Collection Charges |
|--------------------------|----------------|----------|-------------|--------------------|
| April 13, 1983 | ₱16,000.00 | ₱285.00 | ₱240.00 | ₱320.00 |
| August 15, 1983 | 16,000.00 | 285.00 | 240.00 | 320.00 |
| December 14, 1983 | 16,000.00 | 285.00 | 240.00 | 320.00 |
| TOTALS: | 48,000.00 | 855.00 | 720.00 | 960.00 |
| INTEREST | ₱ | 855.00 | | |
| SERVICE FEE | ₱ | 720.00 | | |
| COLLECTION CHARGES | ₱ | 960.00 | | |
| TOTAL COST OF LOAN | ₱ | 2,535.00 | | |

At the end of the year, member 763 received the following amounts from the Cooperative:

| | |
|---------------------------------|-----------|
| Interest on Share Capital (F/D) | ₱ 633.99 |
| Patronage Fund (P/R) | ₱ 404.01 |
| TOTAL | ₱1,038.00 |

New

| | |
|----------------------------------|-----------|
| Total Amount Collected from Loan | ₱2,535.00 |
| Less: Patronage Fund | 404.00 |
| Real Cost of Loan | ₱2,131.00 |

$$\frac{₱ 2,131}{48,000} = 4.43\%$$

Real Cost of ₱1,000 Loan = ₱44.30

It is a common practice among the NAMVESCO Group of Cooperatives that at the year's end, interest on member Share Capital (F/D) & their Patronage Refund are not given directly to the members, but instead are credited to the members Share Capital (F/D) account, thus enhancing the growth of the Cooperatives and the members as well. This adds to the members' loanable amount.

No collateral is demanded, and lending and payment is in cash. The frequency of payment is everyday or every week depending on the agreed terms.

There are hardly any defaults since the members are generally interested in keeping their cooperative viable. This is stressed in their seminars. However, co-makers have to pay unpaid loans.

They use the bookkeeping style in recording. The name, amount of loan, date released, date of payment, and balance of loan are listed down.

The NAMVESCO also has an appliance procurement system. It likewise has an interlending program. It has a lending program with the Bagong KKK (government livelihood) project to the amount of P2 million.

Membership of NAMVESCO is mostly 90 percent women.

The Baclaran Vendors Development Cooperative, Inc. established in 1977 with a capitalization of only P34,000 is now worth P28 million. Its success is worth studying.

There are only two others in the same business. They are the Philippine Federation of Consumer Cooperatives (PFCCI) and the Tagalog Training Center.

The different representatives from the cooperatives were all very willing to be interviewed. A personal interview was preferred by the respondents.

Case 21. Codename: Ms. R

Mrs. R. is 37 years old and she finished first year college. She entered the profession because she was a buyer and seller of palay since 1969. She only had P4,000 then, and people used to ask for cash advances, so she eventually loaned out money. In this manner, she is able to assure herself of the produce. She is now seven years in the profession of moneylending.

She lends to farmers and farm workers in Sta. Rosa, Nueva Ecija and some from Polilio, Cabanatuan, Nueva Ecija.

She got her funds from banks and private moneylenders. The bank's interest rate is only 15 percent per year, not including other fees. However, banks require collateral. From May to August 1987, she borrowed P250,000 from Metro Bank. Her collateral consisted of three lots (3,000, 500 and 200 sq. meters each). She made improvements of P170,000 in the 3,000 sq. meter lot and at present wants to borrow P350,000.

Private lenders charge an interest rate of seven percent per month or 84 percent per year, but no collateral is needed. Payment of interest is monthly, while payment to her by her borrowers is every four months or every harvest season.

She determines the credibility of clients through her personal knowledge of them. However, she states that the necessities of life really make people default on payments.

The loan ceiling is ₱60,000 and the modal loan is ₱5,000. Her profits from this business make up 25 percent to 50 percent of her total income.

With outstanding loans of ₱315,000, there are at present approximately 50 borrowers. Most payment now is only for interest. No payment is made on capital.

Last year, she lent out ₱410,000 and only ₱100,000 was paid back.

| | |
|-----------|----------------------|
| ₱165,000 | from the rice miller |
| 250,000 | from the bank |
| ----- | |
| ₱415,000 | |
| - 100,000 | paid up |

She must earn ₱200/day to be able to pay the interest rate for the ₱315,000 loan. She lends out money, rice, fertilizer, pesticides, seedlings and cash for other personal loans. She does not ask for collateral.

Payment is generally in palay. Interest is paid in newly harvested palay while principal can be paid in dry palay and at the present price of palay. Sometimes she accepts livestock if payment cannot be made in palay. Payment is made every harvest time.

Interest paid for a ₱10,000 loan is computed as follows:

Interest is 3 cavans/₱1,000.00
 therefore, ₱10,000 = 30 cavans x 50 kilos/cavan
 = 1,500 kilos x ₱2.70/kilo
 = ₱4,050/six months

or an interest rate = 6.75%/month or
 40.5%/6 months or
 81%/year

She considers the profession very risky. Since 1980, she has lost around ₱100,000 on defaults. She stays in business because her main business is a palay buying station. She continues to lend out even if they do not pay immediately because she believes that as long as they continue paying they will continue to borrow and be in business, and thus continue to produce.

Some of the risks encountered now is that armed groups are harrasing palay-buying stations. There were already two cases reported. The organization of rice millers is also a risk for her. They are coordinated while palay-buying station owners are not organized.

She thinks that being a moneylender and at the same time, a palay buying station owner is not very compatible. She spends most of her time stationed in her place and she cannot go around collecting specially in far away areas. She also attributes her difficulties in collection to the fact that farmers borrow from as many as five lenders. In fact, they sometimes borrow from one to pay off another. Sometimes her borrowers do not get to pay their debt because they are ashamed because of the delay in payment.

Since she had many problems with collections, the interviewer did not ask if she was willing to become a monitoring source.

Case 22. Codename: Mr. Bombay

He finished two years of an engineering course. He is 55 years old and has no other profession other than trade credit. He arrived in the Philippines from India and entered the business in 1968. He left again in 1973 and came back in 1982. The total time he has been in the profession is 10 years.

He caters to clientele composed mostly of middle class drivers, small store owners and those in beauty parlors. He operates in Hagonoy, Malolos, San Ildefonso and Bulacan, Bulacan. He claims that he has rich customers (around 10%) who make downpayments through middleclass people since they feel ashamed to borrow by installment.

He got his funds from relatives and friends in India. With a total loan size of ₱20,000, he has around 80 to 95 borrowers. The loan ceiling is ₱500, but for special friends there is no limit. He does not choose clients. He does not need references from friends or the like because he does not determine the reliability of clients.

He does not demand collateral. He charges varied interest rates. An item of ₱120 can be given at ₱140 to ₱170 payable from 20 to 30 days at around ₱5.00/day. When the customer is new, he demands a downpayment of ₱10 to ₱20. An item of ₱55 to ₱60 is marked-up to ₱80 or ₱90. He claims he puts a 20 percent to 40 percent mark-up but actually it can be as high as 60 percent.

Lending is usually via trade credits but he also lends cash to some friends. The limit is ₱500 but there is no interest. This is payable according to the request of the borrower friend.

Payment is in cash and it is demanded daily, except for some friends who are allowed to pay on a weekly basis.

Although he does not feel competition in the field, he considers risks and defaults quite big because he does not determine the credibility of client.

He lists names, kinds of goods, amounts and dates of payment in a notebook.

He never hesitated to being interviewed. The interviewer never asked formally if he were willing to be a monitoring source because it was difficult to set an appointment due to time constraints.

Case 23. Codename: Ms. MC

She is a commerce graduate, and at 52, she is now a senior foreign exchange assistant at a bank. She has been into trade credit with a noted department store for three years. She entered the profession when her husband retired early from the bank. Hence, the retirement pay was used for her lending business.

She lends mostly to employees in banks in the Harrison area of Metro Manila.

She determines the reliability of clients only by friends and by the fact that they work in the same office in which she is employed.

The respondent deals with trade credits involving Rustan's Department Store. She applied at Rustan's and got an approval since there was already a guarantor at that time. She posted a bond for ₱500,000. Her collateral was a clean title of house and lot. Her credit line is currently ₱300,000 worth of goods. She has a commission of three percent which is immediately discounted from her payment of the purchase order. She is billed bi-monthly. Hence, she pays ₱150,000 per 15 days less than ₱4,500 or three percent of her commission. She adds two percent to her purchase order, so she puts ₱50 to a purchase order of ₱1,000, or ₱25 for ₱500. An additional charge of ₱3.00 per purchase order is imposed.

With outstanding loans of ₱300,000, she has 200 borrowers. She works with eight sub-guarantors and does not ask for collateral. The limit to the amount of purchase order is ₱3,000 for those in the officer level in the bank, and ₱1,000 for supervisors. The modal amount of credit is ₱1,000. Payment is done in two or four installments. For grocery items, there are two payments.

The peak season is Christmas as well as the opening of classes. She does not feel that the other guarantor from Rustan's is real competition. In fact, she feels that Rustan's protects her guarantors by limiting their number. Moreover, she exhausts her ₱300,000 purchase order.

Delayed payments are paid by the guarantor. There are times when these guarantors cannot also pay.

Her earnings from trade credit comprise more than half her income. The only risk consists of absconding sub-guarantors.

Recording is computerized. She puts name, purchase order number, invoices, amount, and due dates with amount per payment.

She is not hesitant to be questioned because she declares these matters in her income tax. She claims that her husband is honest and that they consider this a very legitimate business. However, she does not want to be interviewed by others. She only agreed because her sub-guarantor asked it as a favor. She also agreed to be very cooperative. She claims that she is willing to be asked again so long as it will help others in their work.

Case 24. Codename: WIDER

This is a summary report on the document of the Women in Development and Economic Recovery program (WIDER). The project was conceived in early 1985 and was funded by the Ministry of Budget through the Ministry of Human Settlements.

Implementation of the project was conducted by individual NGOs and selected government agencies with ongoing programs for women.

WIDER was a response to the national economic recovery program and was in line with the government's policy of promoting women's integration in development. The Philippine Development Plan 1984-1987 specifically provided for this.

The main component was capital loan assistance to women's income-generating projects. It provided loans to 46 of such projects of women and/or women's organizations. The program enhanced entrepreneurial skills, promoted development service, product development and marketing services, and required client monitoring.

The various NGOs were in charge of determining the reliability of the clients. Each organization established a relending scheme to enable as many women as possible to partake of the loan.

Outstanding loans are not specified although the project's base was P5 million. About P340,000 was not used and subsequently returned. There were approximately 46 loans. Loan ceilings and average loans are not specified. There are no collateral requirements for loans, although payment is made to the lending NGO. It must be noted, however, that the original fund was a direct grant to the organizations.

Lending and payment are in cash. The interest rate varies along the different organizations, 24 percent per year being common. Frequency of payment likewise depends on each organization's scheme.

There are no risks in the sense that this was intended as a direct grant but used for a relending scheme. Recording is done by listing the name of the borrower, amount lent and date due.

This case is no longer existing.

Case 25. Codename: F & L

The lenders are Felix, a surveyor, and Lydia Bico, a dentist. They are the copra buyers for a big casa (processor or miller of coconuts) in Guingangan, Quezon. They own a warehouse, a trucking business, a fish farm and operate a merchandising store as well.

They have been in the business of copra buying since 1964 and they lend out money to tenants of coconut plantations (with incomes of P1,500 per month). They lend out also to landowners with incomes of around P5,000/month.

Their original funds came from the bank. They were able to borrow P150,000 at only 12 percent interest in 1964. No collateral was required. They determine the reliability of the client through knowing them personally and by visiting them in the plantations. They also require that the receipt of loans be signed.

They have outstanding loans of only P20,000. They lend out less now because there are many competitors in procuring coconut. Their loan ceiling is P10,000 and average borrowings amount to P1,000. They have 20 to 25 borrowers.

The peak season for lending is June (school opening time), Christmas and fiesta season (May). Their lending activity comprises only a fourth of the income obtained from their copra buying and trucking business. In the trucking enterprise, they do not extend any form of credit. They have a client who pays monthly for trucking service, but there are no interest rates involved. In fact they even borrow money from this person.

They do not demand any collateral. The interest rate charged is ₱5.00 to ₱10.00 less of the prevailing copra price per 100 kilos. The bigger the loan, the nearer is the interest rate to the ₱10.00 level. However, if the loan is only for one week, then the ₱5.00 charge is imposed. The exchange is called "sulitan" or equivalent. If the loan is not paid on time, there is no extra charge. Payment is made in kind, usually on a 45-day contract. Lending comes in the form of cash, rice and commodities in the couple's general merchandising store.

There are many competitors with even bigger capital. Note that there are 30 to 35 copra buyers in this area (pop: 55,000) near the shore.

Risks are very small.

They use a notebook in recording the transactions. To each borrower is assigned an envelope where the list of his loans is noted. Borrowers often make withdrawals more than once in 45 days.

The couple is willing to become a monitoring source.

Case 26. Codename: Big Casa Owner

The source, Felix and Lilia Bico (Case 25), are informants for the enterprise Big Casa, a coconut milling station. The children of the owner running the business are college graduates. Casa operation started in 1960. The family owns a feed mill, a gasoline station, a delivery truck of gasoline and a merchandising store.

The clientele are composed mostly of sulitan or coconut buyers and sellers who are considered small CASA owners.

Funds for Big Casa came from the banks. The reliability of the clients is ensured through contracts signed stipulating how much coconuts will be delivered to the Casa in a month's time. With outstanding loans of ₱2 million, there are at present 30 borrowers. The modal or most frequent loan is ₱20,000 although the loan ceiling is ₱100,000. Demand for loans is greatest during school opening, Christmas season and fiesta time (May).

The interest rate is zero and no collateral is asked. The Casa only demands the fulfillment of contracts regarding coconut quotas. Payments are encouraged to be as frequent as possible.

There are around seven miller competitors in their area of Quezon. Money can be advanced continuously up to the limit of the amount agreed upon in the contract of coconuts to be delivered. Moneylending comprises half of the family income.

There is very minimal risk involved. A contract is signed when the money is loaned out. The source is willing to be monitored regularly for the big Casa owners.

Case 27. Codename: Ms. T

The moneylender is a commerce graduate and she is into many concerns besides moneylending: milling, buying and selling of palay, construction, hollow block making and a trucking business. She started the milling enterprise with her husband in 1980. She learned the moneylending trade from her father.

Her clientele is composed of farmers who usually deposit as much as 600 cavans of palay as well as some six to eight palay buying stations.

The source of her funds came from a bank loan of ₱30,000 in 1980. She determines the reliability of the client by personal knowledge. Outstanding loans to farmers amounts to ₱100,000, with a loan ceiling of ₱20,000, and an average of ₱5,000. Loans come usually in the form of fertilizer and a little cash. Outstanding loans to palay buying stations, meanwhile, consist of ₱100,000 per station during harvest time. Loans granted to palay buying stations serve as running capital for the latter. There are at present 10 farmer borrowers and six to eight palay buying stations. The modal loan is ₱5,000 for farmers and ₱100,000 for palay buying stations.

Seasonality of loans corresponds to that of the harvest. The borrower farmer tends to buy extra appliances during bumper crops.

No collateral is asked. The interest rate for the farmer borrower is five cavans of palay per thousand pesos. But now, it seems that they give as low as three cavans of palay per thousand. As for the palay buying stations, they get loans interest free. They promise to put in as much palay as ₱100,000 upon agreement. They can thus continue to take cash advances as long as the stations keep bringing in palay. The price agreed upon is the current market price. If the station gets a better price from the farmer, that accrues as profit.

There are around three millers in the area but she is the only one who accepts palay from the farmers.

Lending is in cash and fertilizer. Payment is made every harvest season.

In general, she finds the agriculture business to be very risky. In 1985, she lost her warehouse due to a typhoon. At present, she is also engaged in the trucking, road building and hollow block making businesses.

She records transactions in a notebook. There are no promisory notes.

The total amount she lends out to farmers has decreased to ₦100,000 from ₦500,000 due to her inability to go to the fields.

She is willing to be a monitoring source through the daughter of a tenant who previously worked with her in the mill.

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